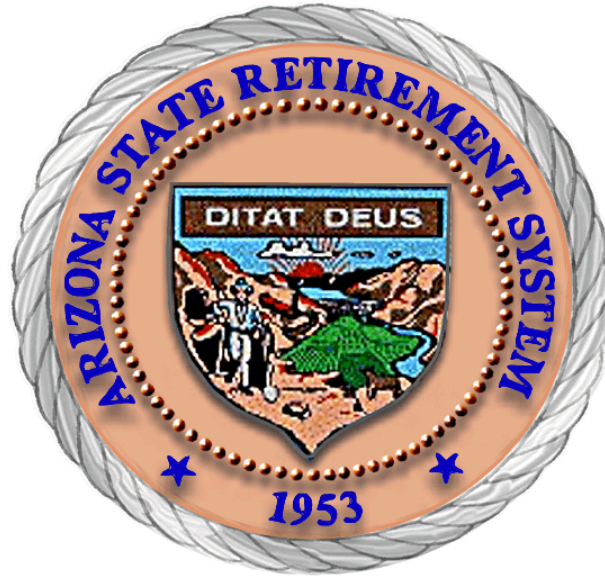


Arizona State Retirement System Board



Opportunistic Investments Review

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December 18, 2009

Agenda

- Definitions and Program Profile
- Managers' Performance Review
- Market Environment – Spreads & Returns
- Opportunistic Investments House Views
- Recent Developments

ASRS Opportunistic Investments

Definition

- 1) Opportunistic investments will be tactical in nature:
Function of market dislocation AND
- 2a) Outside Strategic Asset Allocation (SAA) benchmark,
OR
- 2b) Within SAA benchmark but absolute return oriented

ASRS Policy Allocation 0% (range of 0-10%)

Program Profile

- 7 Investment Managers Signed Since March 2008; 1 manager, Blackrock Credit Investors, returned all capital and redeemed fund in October 2009
- Committed Capital to all 6 managers¹ = \$ 825 MM
- Funded to date - all 6 Managers¹ = \$ 635 MM
- Funded to date as a % of Committed Capital¹ = 77%
- Funded to date as a % of Total ASRS Plan Value² = 3.1%
- 1 New Approved Manager (November 2009)
Additional Committed Capital = \$ 100 MM

Notes:

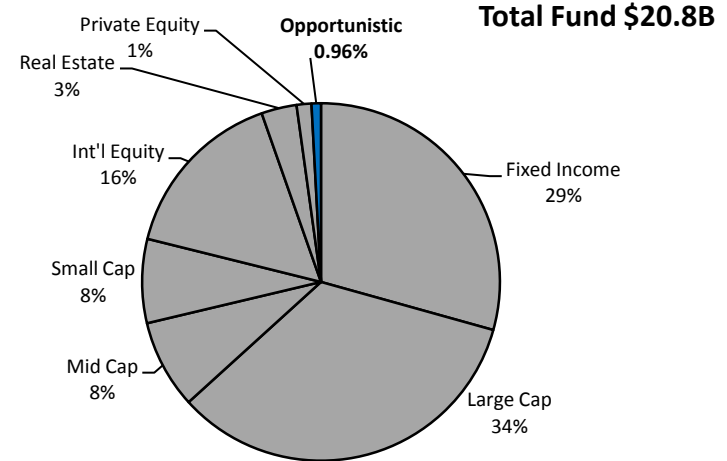
¹ Based on Funded to Date amounts as of November 30, 2009

² Total Pension Fund = \$22.8 billion as of November 30, 2009.

Program Profile

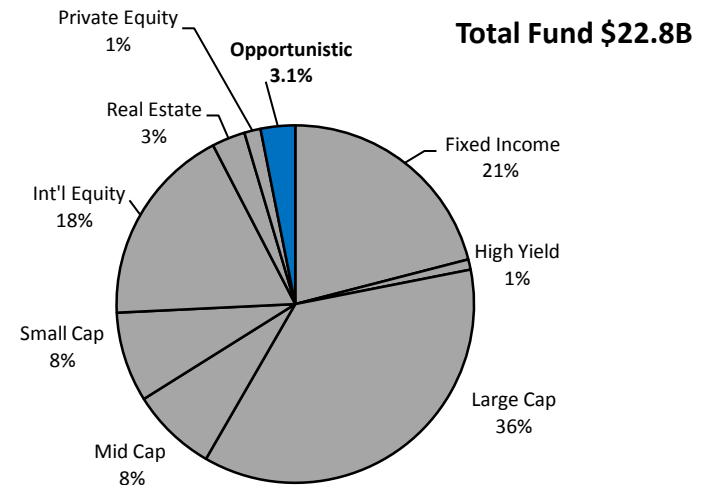
As Of June 30, 2009

- Market Value: \$198 million
 - Policy Target 0-5% +/- 2%
- Investment Managers:
 - 3 LP/GP Structured Funds



As of November 30, 2009

- Market Value: \$710 million
 - Policy Target 0-10% +/- 2%
- Investment Managers:
 - 3 LP/GP Structured Funds
 - 3 Active Separately Managed



Program Profile (as of 11/30/09)

Fund Name	Structure	Absolute Return Expectation (net)	Funding Date	Target Investment Allocation ²	Committed Capital (\$Mil)	Funded to Date (\$ Mil)	Market Value as of 11/30/2009 (\$Mil)
BlackRock Mortgage Investors (BMI)	Closed End Fund	14%	3/28/08	RMBS\CMBS	\$75	\$75.0	\$68
BlackRock Credit Investors II* (BCI)	Closed End Fund	12%	9/29/08	LevLoans	\$100	\$70.0	N/A
TCW Credit Opportunities Fund I	Closed End Fund	10%	7/7/08	RMBS\CMBS\ABS\LevLoans	\$100	\$85.0	\$103
TCW Capital Trust	Closed End Fund	10%	9/29/09	HY\LevLoans\Mezz\Private Debt	\$150	\$75.0	\$75
Hyperion Asset Management ¹	Separately Managed	10%	10/1/08	RMBS\CMBS\ABS	\$150	\$150.0	\$174
Guggenheim Partners ¹	Separately Managed	10%	10/1/08	RMBS\CMBS\ABS	\$150	\$150.0	\$191
Credit Suisse Opp.	Separately Managed	10%	10/22/09	HY\LevLoans\Structured\Distressed Credit	\$200	\$100.0	\$100
Total					\$825*	\$635*	\$710

* Excludes Blackrock Credit Investors, which returned all capital and redeemed fund in October 2009

1 Hyperion & Guggenheim were moved to the Opportunistic allocation effective Oct. 1, 2009, due to the tactical nature of the investments, and to be in line with the recently approved Asset Allocation Study; prior to that both portfolios were part of the Fixed Income allocation.

2 Definitions: RMBS: Residential Mortgage Backed Securities; CMBS: Commercial Mortgage Backed Securities; Lev Loans: Leveraged Loans or Bank Loans; ABS: Asset Backed Securities; HY: High Yield; Mezz: Mezzanine

Opportunistic Investments Performance Report as of June 30, 2009 – Official¹

Fund	MV (\$Mil)	YTD	1 Year	Since Inception
BlackRock Mortgage Investors	\$54	9.8%	-27.8%	-23.3%
BlackRock Credit Investors*	\$55	19.3%	9.0%	9.3%
TCW Credit Opportunities	\$90	15.1%	7.6%	6.0%

Opportunistic Investments Performance Report as of Oct. 31, 2009 – Preliminary²

Fund	MV (\$ Mil)	YTD	1 Year	Since Inception
BlackRock Mortgage Investors	\$68	30.8%	-2.8%	-10.0%
BlackRock Credit Investors*	N/A	23.9%	13.6%	13.6%
TCW Credit Opportunities Fund	\$103	31.3%	20.9%	17.9%
TCW Capital Trust	\$75	-	-	-
Hyperion Asset Management	\$174	20.5%	12.9%	14.4%
Guggenheim Partners	\$191	44.8%	31.6%	36.7%
Credit Suisse Opportunistic	\$100	-	-	-

*Blackrock Credit Investors, returned all capital and redeemed fund in October 2009.

NOTE: All Returns are Time Weighted Returns Net of all fees

¹Official Performance as of June 30, 2009, reported by Credit Suisse Custom Fund Investment Group (CFIG); performance reported on a one-lag

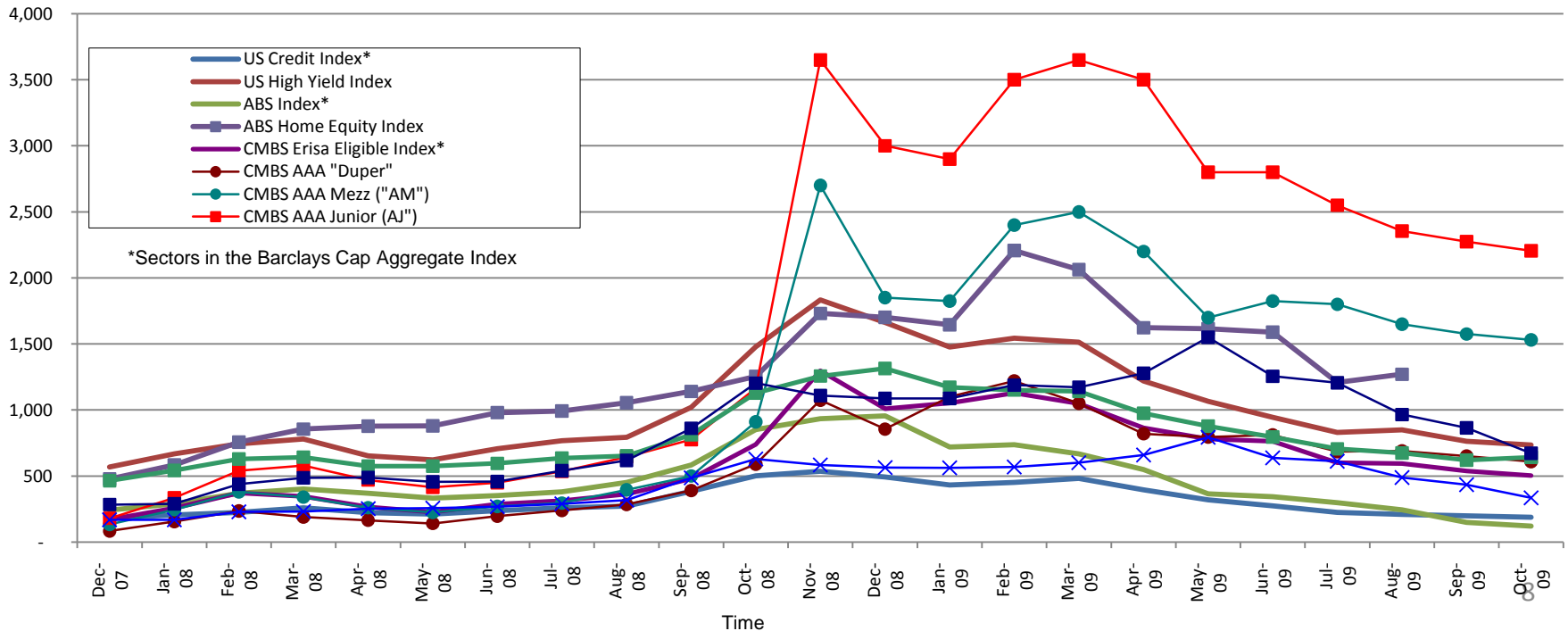
²Preliminary Performance as of Oct. 31, 2009, reported by NEPC. Opportunistic Managers' Market Values provided by CFIG.

Market Environment - Historical Yield Spreads

As of 12/31/07-10/31/09

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	31-Jul	31-Aug	30-Sep	31-Oct
US Credit Index*	181	259	238	385	493	482	275	224	210	198	187
US High Yield Index	569	781	708	1,020	1,662	1,514	945	830	849	764	735
ABS Index*	242	402	353	584	955	668	344	298	245	149	121
ABS Home Equity Index	478	855	980	1,140	1,702	2,063	1,588	1,208	1,270	n/a	n/a
CMBS Erisa Eligible Index*	170	347	288	480	1,010	1,049	763	601	595	537	504
CMBS AAA "Duper"	83	190	197	390	855	1,050	810	685	690	650	610
CMBS AAA Mezz ("AM")	133	340	270	500	1,850	2,500	1,825	1,800	1,650	1,575	1,530
CMBS AAA Junior (AJ")	180	580	450	775	3,000	3,650	2,800	2,550	2,355	2,275	2,205
Leveraged Loans (5yr Avg Life)	465	643	596	813	1,314	1,141	795	706	674	620	642
AAA CLO	169	231	268	486	564	601	638	611	488	434	335
AA CLO	284	486	458	861	1,088	1,171	1,255	1,205	965	864	672

Spreads



Market Environment - Barclays Capital Fixed Income Indices relative to Treasuries (excess return) 1998–2009

Markets continue to recover some of the losses from 2007-2008

	Agencies	MBS	ABS	CMBS Inv. Grade	U.S. Credit	Intermediate Credit	Long Credit	U.S. High Yield	EMD
Quality Ranking	High	High	High	High	Medium	Medium	Medium	Low	Low
1998	-49	-90	-88	n/a	-238	-150	-381	-843	-2046
1999	41	113	137	87	170	164	182	476	2417
2000	-13	-77	43	-41	-463	-237	-1003	-1897	148
2001	73	-75	139	131	277	138	667	-285	-541
2002	96	173	-16	210	-187	-129	-371	-1329	23
2003	27	11	181	201	527	439	824	2642	2465
2004	78	142	142	118	159	151	190	800	823
2005	13	-37	32	15	-85	-25	-291	47	959
2006	75	122	87	137	119	107	156	843	702
2007	-52	-185	-634	-435	-464	-399	-655	-777	-457
2008	-110	-255	-2223	-3274	-1786	-1504	-2719	-3832	-2842
YTD 2009*	221	473	2424	2785	1793	1539	2614	5217	3401

Source: Barclays Capital

*YTD data as of October 31, 2009

The above table is shown for illustrative purposes only

Opportunistic Investments House Views

- The recent distressed credit cycle has been driven by weakening economic fundamentals, a debt supply overhang and higher projected defaults in high yield, CMBS and select structured credit. As a result of aggressive Federal Reserve action to pump liquidity into the financial system and historically attractive asset valuations, equities and fixed income spread product has experienced a massive rally in 2009. Moreover, the opening up of the new issuance market in both equities and high yield has enabled many companies to significantly repair their balance sheets despite tough economic fundamentals.
- Despite this rally, select attractive tactical opportunities appear to continue to exist in select public and private fixed income and equity markets primarily in distressed credit, mortgage and mezzanine financing. However, it is anticipated that in the near-to-intermediate term, investments will likely be made at a more moderately measured pace keeping capacity available for changing and evolving market environments.
- Investment opportunities will continue to be evaluated in the respective asset class committees, however, investments that are tactical in nature and that do not fall cleanly with ASRS asset classes will be evaluated and, if approved, reside in the ASRS opportunity allocation bucket. Though recent opportunistic investments have been fixed income in nature, future tactical investments may become available in other asset classes or strategies anticipated to provide attractive investment rates of return.

Recent Developments

- Fall 2009: Hyperion Brookfield Asset Management, Inc. and Brookfield Redding LLC, both subsidiaries of Brookfield Asset Management, were integrated into Brookfield Investment Management Inc. From strategic perspective, no overlaps exist between the firms: Hyperion focuses primarily on structure product such as CMBS; Brookfield Redding manages real estate and infrastructure investment. Separate, Julie Madnick, head of CMBS departed and was replaced Paul Fitzsimons.
- December 4, 2009: TCW announced it agreed to acquire Metropolitan Asset Management LLC (MetWest), a fixed income management firm with approximately \$30 billion AUM. TCW's asset size is approx \$110 billion. More importantly, TCW also announced that Jeffrey E. Gundlach was terminated as TCW's Chief Investment Officer and lead portfolio manager of TCW's high-grade fixed income funds; a few other senior high-grade portfolio managers resigned. The ASRS has three investments managed by TCW (two fixed income opportunity funds, one private equity mezzanine fund) , however, only the Credit Opportunity Funds may be affected by these departures as the Fund's key persons contract clause was triggered. IMD and Meketa have identified various courses of action; IMD initiated a conference call with primarily limited partner (LP) to discuss these options prior to an upcoming LP advisory meeting. The CIO notified the IC of this development and will keep the IC posted of ongoing dynamics and action taken by the Opportunistic Investment Committee (OIC).